Charting Commissary Sales - Part 2

C8910-1

Military Market

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The Great Resale Wargame

Commissary, exchange updates

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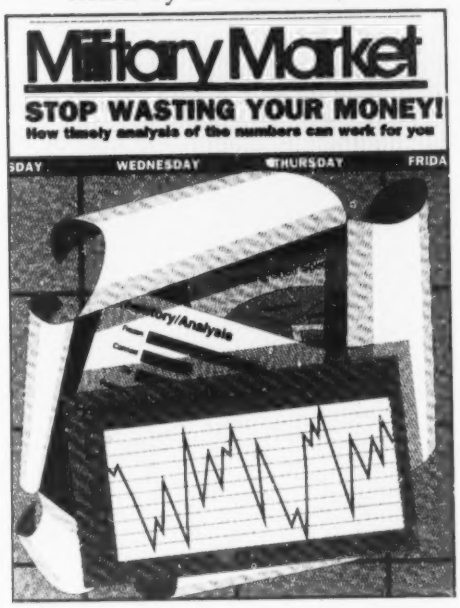

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COVER ART by DAVE CLARK, DESIGN by CHRISTINA RIVERO

Military Market Index

COMMISSARIES		MARCH			YEAR-TO-DATE		
		CY'89	CY'90	% CHANGE	CY'89	CY'90	% CHANGE
	CONUS	$127,680	$135,975	+6.50	$348,185	$376,530	+8.14
	OVERSEAS	46,410	49,455	+6.56	129,465	135,030	+4.30
ARMY	**TOTAL**	**174,090**	**185,430**	**+6.51**	**477,650**	**511,560**	**+7.10**
	CONUS	180,337	213,929	+18.63	500,270	569,460	+13.83
	OVERSEAS	38,946	44,408	+14.02	107,422	120,824	+12.48
AIR FORCE	**TOTAL**	**219,283**	**258,337**	**+17.81**	**607,692**	**690,284**	**+13.59**
	CONUS	81,092	85,856	+5.87	204,621	220,300	+7.66
	OVERSEAS	8,542	8,757	+2.52	22,435	23,543	+4.94
NAVY	**TOTAL**	**89,634**	**94,613**	**+5.55**	**227,056**	**243,843**	**+7.39**
	CONUS	16,604	19,030	+14.61	42,383	47,355	+11.73
	OVERSEAS	366	354	-3.28	925	864	-6.59
MARINE CORPS	**TOTAL**	**16,970**	**19,384**	**+14.23**	**43,308**	**48,219**	**+11.34**
	CONUS	333	341	+2.40	860	877	+1.98
	OVERSEAS	319	272	-14.73	925	815	-11.89
COAST GUARD	**TOTAL**	**652**	**613**	**-5.98**	**1,785**	**1,692**	**-5.21**
	CONUS	$406,046	$455,131	+12.09	$1,096,319	$1,214,522	+10.78
	OVERSEAS	$94,583	$103,246	+9.16	$261,172	$281,076	+7.62
ALL COMMISSARIES	**TOTAL**	**$500,629**	**$558,377**	**+11.54**	**$1,357,491**	**$1,495,598**	**+10.17**

EXCHANGES		MARCH			YEAR-TO-DATE		
	CONUS	$287,996	$325,929	+13.17	$783,605	$903,163	+15.26
	OVERSEAS	218,721	238,631	+9.10	601,048	680,028	+13.14
AAFES	**TOTAL**	**506,717**	**564,560**	**+11.42**	**1,384,653**	**1,583,191**	**+14.34**
	CONUS[2]	975	1,128	+15.69	3,129	3,381	+8.05
	OVERSEAS[2]	1,716	2,361	+37.59	4,941	6,922	+40.09
MAIL ORDER	**TOTAL[3]**	**2,691**	**3,489**	**+29.65**	**8,070**	**10,303**	**+27.67**
	ConUS[4]	120,101	123,094	+2.49	290,968	308,512	+6.03
	OVERSEAS[4]	47,606	54,063	+13.56	123,196	135,152	+9.70
NAVY	**TOTAL[4]**	**167,707**	**177,157**	**+5.63**	**414,164**	**443,664**	**+7.12**
	CONUS	25,284	33,635	+33.03	79,971	86,573	+8.26
	OVERSEAS	3,409	3,441	+0.94	13,223	10,564	-20.11
MARINE CORPS	**TOTAL[2]**	**28,693**	**37,076**	**+29.22**	**93,194**	**97,137**	**+4.23**
	CONUS[2]	6,882	7,279	+5.77	20,315	21,208	+4.40
	OVERSEAS*[2]	598	622	+4.01	1,773	1,827	+3.05
COAST GUARD	**TOTAL[2]**	**7,480**	**7,901**	**+5.63**	**22,088**	**23,035**	**+4.29**
	CONUS	$441,238	$491,065	+11.29	$1,177,988	$1,322,837	+12.30
	OVERSEAS	$272,050	$299,118	+9.95	$744,181	$834,493	+12.14
ALL EXCHANGES	**TOTAL**	**$713,288**	**$790,183**	**+10.78**	**$1,922,169**	**$2,157,330**	**+12.23**

1) SOURCE: U.S. Department of Commerce. 2) MM estimate, based on official data. 3) Includes consolidated sales for all services, including Coast Guard. 4) Does not include sales of ships stores. *Overseas Marine Corps figures do not include those for camps Butler a Iwakuni, which were unavailable at press time. NOTE: Individual figures may not equal totals because of rounding. All sales are expressed in thousands (000), except grocery and department stores, which are in billions. Commissary sales include appropriate surcharges; exchange sales include concession volume. Distribution of sales by ConUS and overseas is based on definition by respective service and system. Figures do not include sales tax.

Marty Baumann for Military Market Magazine

DATA AUTOMATION

AFCOMS, TSA, DPSC are making EDI progress

Three commissary agencies which have been latecomers to the use of electronic data interchange are making progress in that arena:

■ **AFCOMS:** The Air Force Commissary Service begins testing electronic ordering in its Southern Region at Maxwell AFB, Ala., on July 16, with the Procter and Gamble Co. and with Dixon Marketing, which represents 17 manufacturers.

AFCOMS is implementing EDI in phases, in conjunction with the Air Force Accounting and Finance Center. Electronic ordering is the first phase; the second phase, which involves electronic invoicing, will being July 30. Phase III — electronic funds transfer — is slated to begin sometime in January 1991.

AFCOMS will add Southern Region stores to the test one at a time. Moody AFB, Ga., and Hurlburt AFB, Fla., will begin EDI soon after Maxwell. The last store to be added to the program is Warner-Robins, Ga., since it also supports Mediterranean area stores.

When electronic ordering begins, the electronic transmittals will go to Dixon, ordering for all 17 manufacturers. However, invoicing and funds transfer, which link directly to the manufacturer, will be possible with only two of the 17 companies: Nabisco and Dow Brands.

According to AFCOMS, by using existing hardware, the agency will be able to impiement EDI at a total cost of not more than $4,000. Officials expect EDI to enable stores to order faster, more frequently and more accurately, which will reduce warehouse inventory levels. Other benefits cited include fewer not-in-stocks, reduced labor costs, reduced handling costs and reduced filing of paper. According to AFCOMS, as the agency advances to a real-time receiving system, EDI will also eventually eliminate the need for data entry.

Originally, AFCOMS had agreed to use the federal standard ANSI X.12 for EDI, but officials decided that since only one manufacturer (P&G) said it would use that standard, a successful test would require stores to use UCS/EDI.

The UCS Standards Maintenance Committee is expected to meef sometime in the near future to determine if UCS will be pulled under ANSI X.12 as a new leg of the standard. This is expected to happen, but it will take 5 to 6 years to be totally merged.

AFCOMS reports that, if in the course of the test it seems to be going well, it may solicit additional manufacturers or brokers to participate.

■ **TSA:** The Troop Support Agency, which began a test of electronic ordering in March at its Fort Lee, Va., commissary, now has C. Lloyd Johnson, Webco and General Foods participating.

From the beginning, the test has involved parallel sending of hard and electronic copies of the orders. Because of software problems, the store has had to rely on the hard copies and has not been able to switch to a completely electronic transmittal. Headquarters personnel have been working to correct the problems.

Five other companies have signed up to participate in the test when the software is improved: Overseas Service Corp., George E. Abbott & Co., Eurpac Service Co., Francois L. Schwarz and Procter and Gamble.

TSA is using the Uniform Communications Standard (UCS) format.

■ **DPSC:** As of June, the Defense Personnel Support Center had tested electronic ordering with Procter and Gamble, Dixon Marketing (representing Nabisco), Del Monte and Nabisco direct. (Nabisco splits its orders between itself and Dixon.)

Dreux Daumer, chief of the technical services branch in the Defense Integrated Subsistence Management System office, said that P&G was the first manufacturer to test electronic ordering with DPSC, but the test has been discontinued while P&G works to adapt its system to some DPSC requirements. Del Monte will also have to make changes to its system.

Daumer said that DPSC is preparing to extend the electronic ordering test to four other companies: OSC (Overseas Service Corp.), General Mills, Francois L. Schwarz and Scott Paper. Adapting the software to add the companies takes several months.

The agency has tested electronic invoicing with only one company — General Foods. The test determined that GF must adapt its system to government requirements for the invoicing.

DPSC is making plans to provide Purchasing Order Requisition Listings — brand-name commissary data which industry refers to as "crazy sheets" or "hot sheets," — to industry through electronic means by the end of the year. These listings provide a summarized recap of a company's purchase orders for that cycle.

Exchange Systems Performance Measures — Fiscal 1989

	AAFES	NAVRESSO	MARINES	VCS COAST GUARD	
Retail Sales *	$5,327,528,506	$1,341,621,488	$377,774,833	$89,779,778	$70,978,898
% Change †	+11.0%	+0.9%	+11.45%	-1.05%	+12.4%
Total Sales ‡	$6,777,399,270	$1,886,169,528	$565,926,456	$180,167,448	$121,574,337
% Change †	+9.0%	+1.8%	9.8%	-1.0%	+11.1%

Exchange systems' fiscal years vary. They are: AAFES (Jan. 25, 1988 to Jan. 24, 1989); NAVRESSO (Feb. 1, 1988 to Jan. 31, 1989); Marine Corps (Jan. 29, 1988 to Jan. 28, 1989); VCS (Oct. 1, 1988 to Sept. 30, 1989); Coast Guard (Jan. 23, 1988 to Jan. 22 1989).

NOTE: Veterans Canteen Service sales declines are due to losses caused by eliminating sales of tobacco in some canteens.

** Retail sales mean retail store sales, and exclude sales from other exchange operations, such as food service, clubs, concessions, etc.*
† Indicates change from 1988 to 1989.
‡ Total sales include retail sales, as well as sales from clubs, concessions, services operations, food operations, etc.

SOURCE: All figures provided to MILITARY MARKET MAGAZINE *by the individual exchange services.*

DEMOGRAPHICS

Study calls for recruiting and retention changes

Unless the Pentagon changes its recruiting and retention policies, the smaller military of the future could face increased demands for family-support services, says a study by a former Navy manpower official.

The warning comes from retired Navy Capt. Thomas M. Hale, the former head of Navy compensation and now vice president of a Virginia-based consulting group specializing in military personnel issues.

Hale, who retired from the Navy in 1983, said his research found older recruits, married males, blacks and single females — all more likely than single, white males to need support programs — are more likely to remain in the military than single, white males, who traditionally make up more than 30 percent of the force.

Because people with families are more likely to remain in the service than those without families, Hale said there could be "additional pressures for programs such as additional child-care facilities, reduction of family separation, equal opportunity and the elimination of the legal restrictions against women in combat."

Hale's study, done as part of his doctoral studies at George Mason University in Fairfax, Va., is based on the 1985 Department of Defense survey of enlisted personnel. For his doctoral thesis, Hale studied just part of the data collected by looking at the responses of 1,800 Navy enlisted personnel in pay grades of E-3 through E-5.

While he did not look specifically at the other services, Hale said he would expect the conclusion to be virtually the same. The one difference would be that minority representation in the other services would be even larger because the Navy has a smaller percentage of blacks than the other services.

Hale said he found single, black females had the highest retention rate of any demographic group. Single white males had the lowest, 31 percent.

The retention rate for blacks is 55 percent, or 76 percent greater than the retention rate for single, white males. The retention rate from single, black females was 68 percent, more than double the rate for single, white males, Hale found.

Based on these trends, Hale said the military "can expect to experience a higher percentage of married personnel, females and minorities in the career enlisted force than currently exists." He predicted this will occur even during the drawdown in the size of the active-duty force unless steps are taken to change enlistment patterns.

For example, the services could reduce first-term military pay as a step to discourage service members from marrying at a young age. They could increase mental aptitude test score requirements for enlistement to reduce the number of blacks entering the service. Both military and independent studies have shown that blacks generally score lower than their white couterparts on military aptitude tests. To change the mix in the services, the Pentagon or the services also could lower enlistment quotas for women to cut the total number of women in the military.

Hale's research is not suprising in some respects. Single females are generally are considered more likely to re-enlist in the military than married females because women who are married find that military life conflicts with raising a family, military manpower officials said.

Married males, however, are more likely to re-enlist than single males because they have family obligations that discourage them from leaving the service to find new employment in the private sector, the officials said.

Commissary Systems Performance Measures — Fiscal 1989

	AFCOMS	TSA	NAVRESSO	MARINES	TOTALS
Sales *	$2,612,437,302	$1,992,088,187	$968,045,705	$187,534,735	$5,760,105,929
% of Change †	+7.2%	+3.7%	+6.4%	+4.3%	+5.7%
Transactions	53,868,838	44,980,305	20,765,592	3,841,015	128,455,750
Average trans.	$48.50	$44.29	$46.62	$48.82	$44.81
Surcharge ‡	$121,721,000	$93,109,370	$46,253,279	$8,870,525	$269,954,174
Coupons ‡	127,574,183	81,700,000	39,903,047	6,870,580	256,047,810
Coupons in $	$70,700,000	$49,075,782	$15,507,705	$2,441,242	$137,724,729
% of Change †	+24.8%	+24.6%	+16.3%	+10.5%	+23.4%
Ave. $ value	$ .55	$ .60	$ .39	$ .36	$ .54
Food stamps	$3,810,447	$5,184,693	$2,065,266	$382,899	$11,443,305
% of Change †	+11.9%	+5.8%	-2.9%	-2.2%	+5.7%

Commissary systems fiscal year is from Oct. 1, 1988 to Sept. 30, 1989.
** Total sales include surcharge. † Indicates change from 1988 to 1989. ‡ Indicates total.*
SOURCE: All figures provided to Military Market Magazine *by individual commissary services.*

RESALE BY THE NUMBERS

Sales figures for the commissary systems have been available for many years, with varying degrees of accuracy. But in the past five years the services and their suppliers have had access to increasingly complex numbers, as well as increasingly sophisticated ways of analyzing those figures.

Graphic analysis — visual representations of number trends — is one of those sophisticated tools. In Part Two of an article that began in the June issue of this magazine, Commissary Reporter Karen McBeth takes a further look at graphic analysis and at six factors that influence sales in the military.

By Karen McBeth, Associate Editor

When sales professionals step across the threshold into the military market, their first reaction is often frustration. As they cope with new acronyms, unfamiliar jargon, and a baffling distribution system, they may wonder if they will ever find a use for what they thought they knew about marketing.

They are relieved when they realize that some commercial marketing ideas do still apply. But the smart people quickly learn that a host of other factors also influence selling in this unique arena.

One tool which helps sales representatives and store managers alike is data — especially graphic presentations. As was explained in Part One of this article, analyzing long-term sales trends, seasonal patterns, and promotional activity — *by the numbers* — will enable industry and military marketers to survive and prosper in the changing resale environment.

Manufacturers and market researchers have been charting out individual categories and brands for some time. But it is only recently that the information has become more readily available, and that industry and military personnel have made full use of it.

In addition, charting the overall sales of commissaries is a new form of analysis which can be used in conjunction with more specific graphs. The graphs in this article represent a combination of data taken from the monthly MILITARY MARKET Index, from the U.S. Department of Commerce, and from Military Audits of Market Information (MAMI).

There are many influences on sales. Because they are so interrelated, it is usually impossible to isolate each cause and effect. But, based on their understanding of the military resale system and military customers, experts from industry and from the services have come up with some pretty good theories for what's driving the graphs, and thus, what's driving the market.

This article will describe how influences from six basic areas affect selling to the military market. Three of the areas — seasonality, competition and environmental factors — play a role in the civilian market as well. But the impact of operational techniques, budget allocations and space limitations is military-specific.

The Effects of Seasonality

Seasonality defines when a product sells best because of weather, eating habits, or shopping habits at certain times of the year. These factors exist in all markets, civilian and military alike, but the military has additional "seasonal" events, such as service-wide sales, change-of-station moves, troop maneuvers and paydays.

• **November through February fluctuations:** Just as in the commercial world, sales in commissaries go up in December and go down in February, as the graph on page 54 shows. November and December are two of the biggest months, not so much because promotions are held then, but because it is the nature of people to buy more during the holiday season, says Joe Jeu, head of the Marine Corps' Services Branch.

By contrast, cold weather and the lack of holidays cause sales to decline in January and February. This seasonal factor has even greater impact in the Northeast and Midwest, where winter weather can be severe, points out Rosemary Buettner, who retired last year as head of the Resource Management Directorate in the Troop Support Agency (TSA).

Another reason for the February slump is that the month has fewer operating days. Jeu and Buettner both believe that January sales actually are worse, although February looks like a weaker month because it has fewer days.

The commissary services plan for these seasonal variations as a "matter of course," says Bill Mehler, TSA's chief of the Merchandising and Marketing Division.

"There's no question that the services have done an exceptionally good job in dealing with seasonality," notes Lauren Elkin III, president of the L.J. Elkin, Inc., brokerage company.

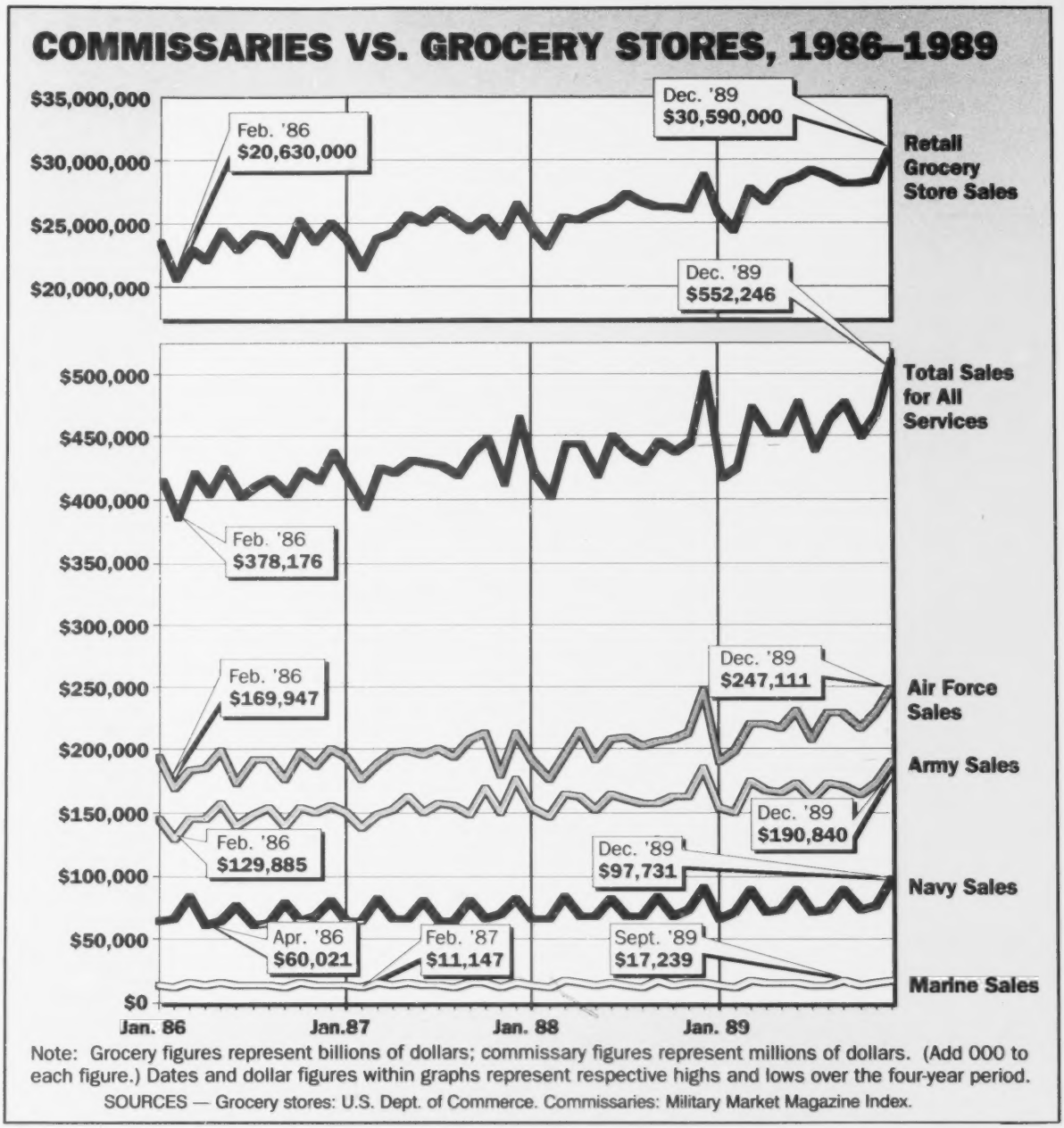
• **Summer sales fluctuations:** Mehler and Jeu both mention the impact that permanent change-of-station (PCS) moves and vacations have on sales during the summer months. According to Mehler, most areas see a decline in sales during these peak vacation and travel months, although a resort area would see the reverse trend.

"The unique thing the civilian sector doesn't have to deal with is the change in station," Jeu says about the summer months. "When people come and pack your belongings, you no longer have the capability to cook. Also, if you're traveling across country, you're not going to shop during that time."

Jeu says that military members move about every three years, which could mean that a third of the customer base moves each summer, when children are out of school. The Air Force Commissary Service reports that the most popular month for moves varies from year to year, but June, July and August are all common times.

In the commercial marketplace, which doesn't have as big a percentage of its customer base moving each summer, sales do not show the extreme peaks and valleys

(Continued)



Note: Grocery figures represent billions of dollars; commissary figures represent millions of dollars. (Add 000 to each figure.) Dates and dollar figures within graphs represent respective highs and lows over the four-year period.

SOURCES — Grocery stores: U.S. Dept. of Commerce. Commissaries: Military Market Magazine Index.

The graphs above represent the MILITARY MARKET *Index, 1986 – 1989, the most recent four years. Because Navy accounting periods do not correspond to calendar days, and because there is a five-week accounting period every three months, Navy sales do not accurately reveal monthly sales changes and are provided for illustration only.*

which the military trend line shows. *[See graph above.]*

Over time, sales in commissaries appear to have shifted away from the months of May and July and tilted toward June, as May and July went from being high sales months to being low sales months. At the same time, June became a strong month for sales. None of the resale experts who were asked to comment about this phenomenon could find one single explanation for this, but they theorize that it could have something to do with the summer moves.

"Traditionally, one month in the summer was low because that was the month [service members] moved," TSA's Buettner remembers. She suggests that the services may now be moving more people in July, which would cause the sales decline seen in this month.

A Pentagon official theorizes that the phenomenon could have to do with the fiscal year, since the services budget their personnel moves according to fiscal quarters. July is the beginning of a new quarter, so more funding may be available for PCS shifts then. June, which falls at the end of a quarter, may see higher sales as a result of fewer moves.

Buettner cites an example of the role that funding plays: "One year the Army ran out of money and didn't move people in Europe. So sales stayed even."

Special Factors

- **Random events:** Other occasional events that have an impact, says Lauren Elkin, include morale-related activi-

ties like air shows, which travel from base to base, and commissary grand openings.

Rosemary Buettner notes that sales can vary according to military field maneuvers. "Sales are always down during REFORGER [exercises] in Europe — the men are in the field, and their families are going to Burger King."

Jim Graef, who is manager of military sales for Quaker Oats Co., says that field maneuvers, a sudden heat wave, or a situation like the invasion of Panama, all result in an increase in sales for Gatorade, one of his company's products. He says that manufacturers have to look at the patterns of ship arrivals in port, and try to order ahead, since a ship's arrival causes an increase in sales for all products.

"Some of that you can't predict — it's like Russian roulette," Graef says.

• **Promotional events:** Sales peaks in some months, like June, may be driven by agency-wide, headquarters-directed promotional events. Quaker's Graef says that service-wide promotions "definitely" cause sales to increase, and that the services are improving their execution of them. AFCOMS runs its big Red Coat Sale in June, and Navy commissaries also have a major event in June. But TSA and the Marine Corps do not run big agency-wide promotions at that time, and their sales are also up in June.

AFCOMS officials report that, some years ago, they noticed from studying sales data that their sales were down in June, so they decided to run the Red Coat Sale in that month. They estimate that the annual promotion increases overall sales for that month by about 10 percent. The other services may be benefiting from the AFCOMS sale in a piggyback effect, since suppliers offer promotions to them at the same time AFCOMS has its big event.

In addition, AFCOMS merchandisers theorize that, when kids are vacationing from school in the summer, they eat their lunches at home instead of buying from school cafeterias, thereby giving an incremental sales increase.

• **Payday shifts:** Like the June sales blip, there also seems to be no clear-cut reason for the sales shift from October to the month of November. It may have something to do with how the paydays or store operating days fall.

Military paydays are the 1st and 15th of each month; however, if the 1st falls on a Saturday or Sunday, the pay is distributed on Friday, a day which would fall in the previous month. When this happens, some months have three paydays, while others have only one. For example, if members get paid on Friday the 30th of March 1990, and go grocery shopping at the commissary on Friday (the 30th) and Saturday (the 31st), those extra payday sales fall in March, not April. So the April 1st "payday effect" takes place in March, instead. March ends up with three paydays — the 1st, the 15th and the 30th — while April ends up having only one payday — the 15th.

October 1989 was a month with only one payday, because the 1st fell on a Sunday. Thus, service members were paid on Friday, Sept. 29. This could partially explain the low sales of October 1989. In addition, the month had more than its share of Mondays (five) — a day on which many commissaries are closed.

The assumption behind the payday effect is that service members and their spouses wait until they get their paychecks before they shop, and don't "float" checks without money in the bank. TSA's Mehler says that, with electronic funds transfer and the speed with which a check can clear, people are less prone than they used to be to take a chance on bouncing a check.

"The float used to be five to seven days, but now you can't do that with the same degree of certainty," he says. "Rather than floating the check," says Mehler, "people are more likely [to wait] until the check has hit the bank" before they shop.

Product Seasonality

While the overall sales graphs give a good idea of general trends, each product category has its own season. Some go with the basic pattern, and some do not. *[See graph below.]* For example, frozen foods and diet foods sell well at the slowest overall time of the year — in January and February, perhaps because shoppers are looking for more convenience and fewer calories after the holidays. *[See frozen food graph on page 56.]*

John Sarver, sales planning manager for General Foods' military sales, says that while February is a month that "doesn't have much going for it," because of bad weather and the lack of holidays, it's a "great time to be doing activity" for diet products.

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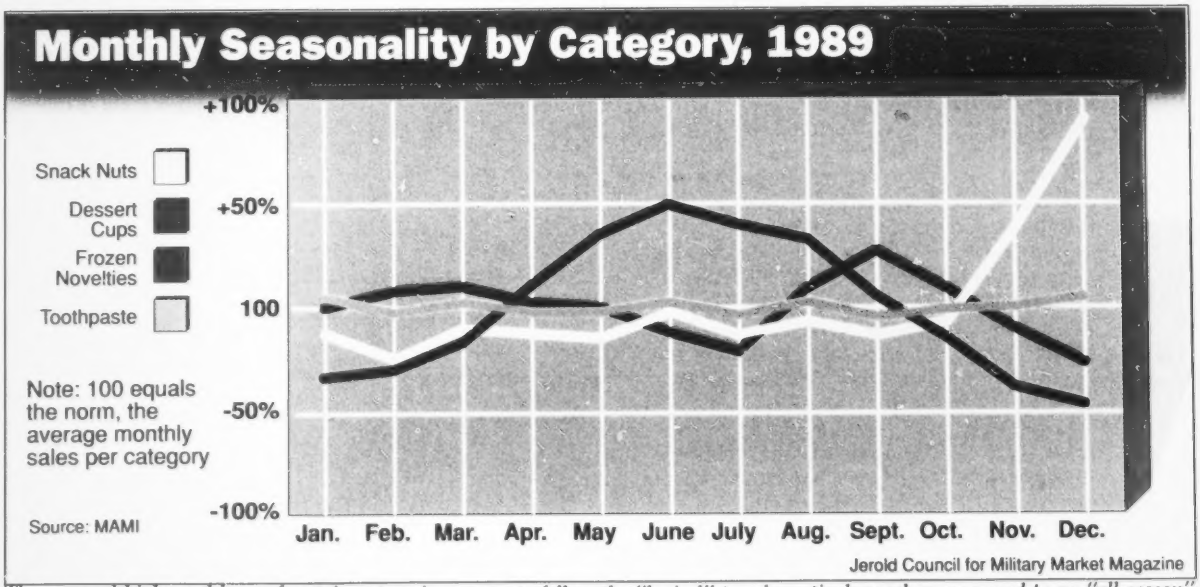
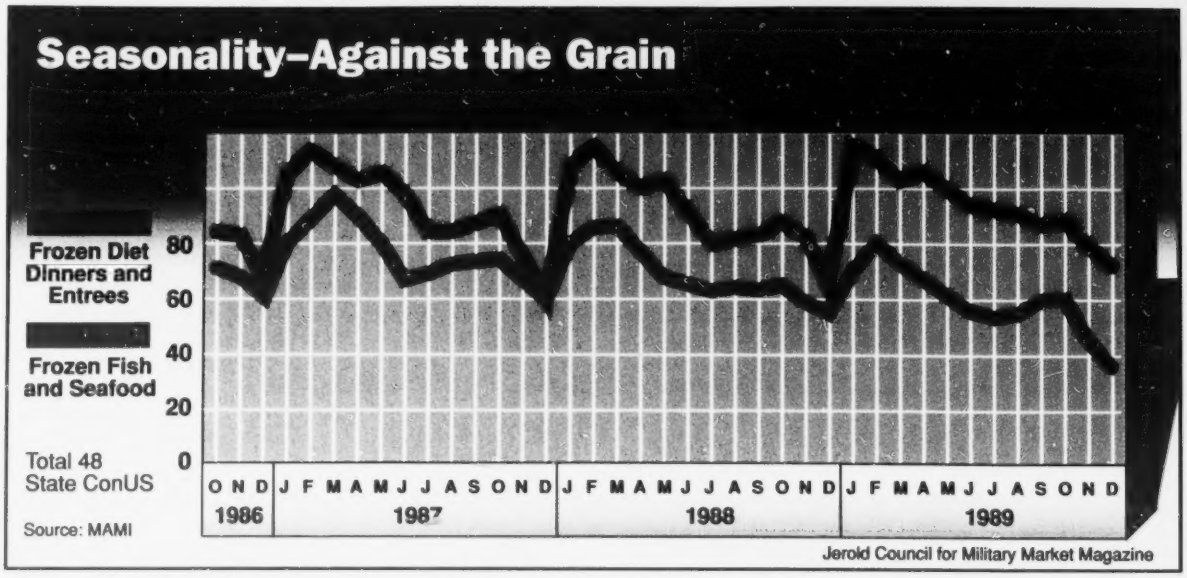


The seasonal highs and lows of certain categories appear to follow the "logical" trend, particulary when compared to an "all-season" category, such as toothpaste.


Seasonality–Against the Grain
Frozen Diet Dinners and Entrees
Frozen Fish and Seafood
Total 48 State ConUS
80
60
40
20
0
O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1986
1987
1988
1989
Source: MAMI
Jerold Council for Military Market Magazine

While total commissary sales dropped in January [See graph, page 54.], *some categories took a turn against the trend. Sales of frozen fish and seafood, as well as diet dinners and entrees, reflect strong consumer demand in January and February.*

Seasonal trends are something a manufacturer should watch carefully. Most manufacturers, when questioned, profess to know the correct seasons for their products. But analysts at MAMI say they have helped manufacturers perform promotional effectiveness studies which have revealed that military sales departments were not always promoting their products at the best times of the year.

"Seasonality's a factor you're not going to get out of," says Mike Grosse, formerly a national accounts manager with MAMI and now director of overseas sales at Eurpac Service Co. Grosse says that a manufacturer or broker who thinks that promoting a product when sales are low will increase their sales is probably going to be mistaken.

"The manufacturer's saying, 'Well, I don't get any volume normally during this time frame, [so] let's spend money to try and increase that.' "

But does that really work?

Often, it does not, Grosse says, either because of a lack of funding on the part of the services or because customers just don't buy that product during that time of year.

"We've proven that VPRs are not effective during a particular season. We [at MAMI] have seen manufacturer after manufacturer promote during that particular season and not get anything, and yet do something at a very different time period and do well."

The graph on page 58 shows an item in the wraps, foils and bags category which its manufacturer historically promoted during the summer. The summer — a season for picnics, camping and traveling — would logically seem to be a good time to promote this category. However, as the graph shows, the best periods are actually January/February and August/September. Through such analysis, Quaker's Graef also found that one of his company's products would do better if promoted at a different time of year, although he declined to be specific about what product or what season.

Mike Grosse suggests that if a manufacturer sees an increase for the overall category during a certain season, but not for his items or brands, he should find out why. It may be because his broker or the stores aren't following through on orders or promotions. If his competitors had a sales increase during that period, it's even more likely that there was a lack of broker or store follow-through for that promotion.

Operational Effects: Ordering Patterns, Distribution and Follow-Through

The way the military services operate their commissaries — or are forced to operate because of the constraints of doing business in a governmental system — affects store sales in ways that commercial operations are not influenced. Here are four examples:

- **Annual inventories:** When the services conduct their annual accountable inventories, some stores order less product because it makes the counting easier. And, sometimes, the services alter their accounting periods slightly to allow for the inventory period.

Rosemary Buettner says that when she was at TSA, the agency took two accountable inventories — in February and in August. Just before she retired, TSA switched to a system of only taking a single annual accountable inventory — in February. Buettner says that headquarters personnel always told the stores "not to order down," but it is her opinion that many commissary officers did so anyway. In fact, she adds, some stores in Europe actually closed down for the inventory period.

AFCOMS reports that stores may try to reduce their warehouse reserves before an accountable inventory, but they don't stop ordering and the shelves remain stocked. AFCOMS does not mandate a specific month for the accountable inventory to be held. Some stores take one once a year at no fixed month, while stores with an exceptional track record take inventory every three years. Traditionally, the most common months for AFCOMS inventories are February and March.

The Marine Corps still conducts its accountable inventories in both February and August, says Joe Jeu. The service cuts off the accounting period for those months so that stores can take inventory over a long weekend. Thus, February and August both only have about 25 "calendar days" (resulting in low sales for that month), while March and September may have as many as 35 "calendar days" (resulting in high sales for those months).

"For us, it's not a problem as long as it's consistent," he says. "We go by fiscal years, and both inventories are [held] in the middle of a quarter."

Jeu says that one advantage of the Marines' central

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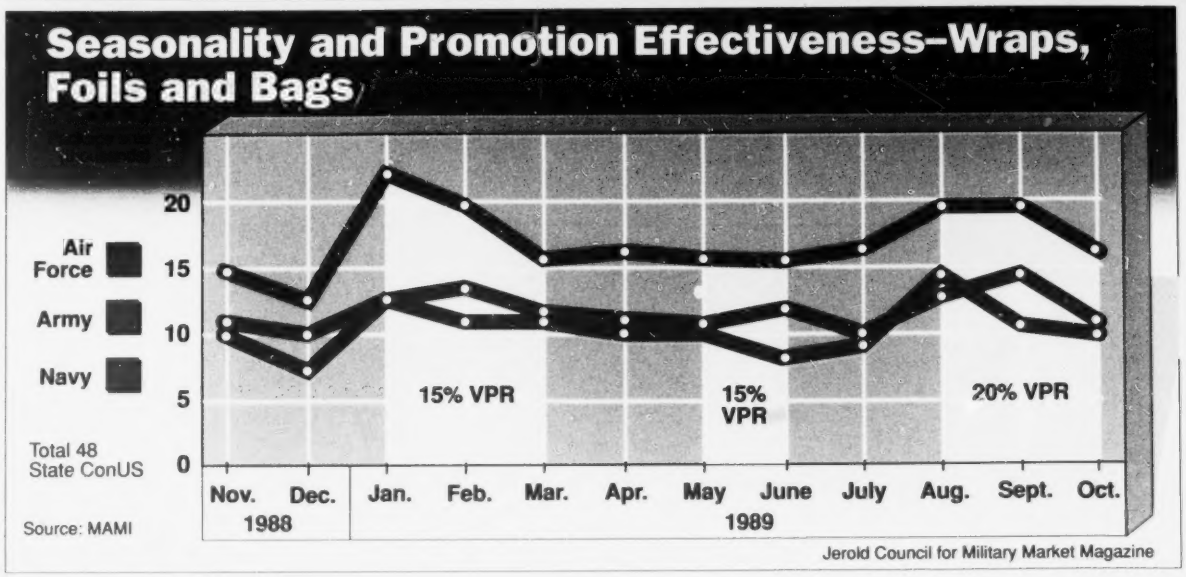

The logical approach to seasonality does not always pay dividends. The summer voluntary price reductions (VPR) did not generate the sales increase that other seasonal VPRs did.

distribution concept is that the agency does not have to order down during its inventory periods. "With a CDC [central distribution center], you can order and everything goes on the shelf."

Mike Grosse says that sales representatives should be aware of the ordering process during inventory times, because how a store orders can affect promotions. He says that for the majority of manufacturers — those who don't see any sales growth in February — the month is not a good time to promote.

Grosse adds that MAMI is seeing "phenomenal growth" for February from year to year, so that the inventory process is becoming less of a factor as the services become more proficient at conducting their annual counts.

• **Ordering patterns:** The way the services order at other times of the year can also affect sales. A wrong decision by a commissary officer, poor guidance from a sales rep, or an error by either of them, can result in excessive or insufficient inventory of a product. A miscalcuation about the popularity of an item leaves the store with a "dog" that takes up more space than it deserves, or it could keep sales from growing to their full potential.

One manufacturer, who didn't want to be named, says that he's seen big off-season orders come in for one of his products, particularly from overseas stores.

"I tried to talk them out of it, but I couldn't. I knew it wasn't good for either one of us," he says. He adds that sometimes, however, the store may know of an event coming up that would require larger quantities of a particular product. "Also, it's the responsibility of a good broker or manufacturer to suggest quantities."

Once a store ends up with an excessive inventory, it may not be able to order enough of other products. "They come under pressure from the services to manage their inventory," says one broker, who also asked not to be identified.

"With a high inventory-to-sales ratio and no money, a commissary officer is faced with a budget constraint and would have to make hard decisions about what to order, or what to lose stock of," says Joe Cattano, product manager/military for Planters Lifesavers Co. "It would be a tough call."

Ex-MAMI national accounts manager Grosse says that commissary officials can use these sales graphs to be aware of the trends, so that they can plan orders, or so that they'll listen to a sales rep when he makes order recommendations.

This applies to distributors as well, since many of them don't always follow a sales rep's recommended order quantities. "A promotion will come along, and a [distributor] guy will say, 'Hey, I don't want that product in my warehouse.' And [he will] only stock that much of it. 'This is what we've been ordering for the last 10 years, and this is all we're going to order.' "

Grosse says that out-of-stocks during the holidays could be avoided — and sales could grow even more — if commissary officials and distributors wouldn't hold back when they order.

The Marines' Jeu points out that sometimes commissary officers *do* place large orders when they need to, but industry representatives "back order" and may fill only 60 percent of what's requested. He says that the situation has reached the point where commissary officers order more than they think they'll need for the holidays, anticipating that some orders won't be completely filled.

Until recently, commissary officers have not had access to a wide variety of data or graphs. That may be changing, as manufacturers and commissary personnel under budgeting constraints look for data to help make tough decisions about product selection.

• **Differences among the systems:** The differences in the way the commissary services are managed affects the way that promotions are handled. This, in turn, may affect sales.

Also, the nature of the commissary system means that promotions are handled differently than they are in the commercial sector.

Grosse, along with others in industry, says that because the Air Force tends to have newer, bigger stores than the other services, and because AFCOMS mandates more promotions from headquarters, a manufacturer who presents the same promotion to all services would find a better sales increase in the Air Force than in the other services.

Air Force commissaries have more space in which to run displays, and a headquarters mandate usually means that more stores participate in the promotion. The Air

Force is also widely considered to have better follow through on its promotions.

"Because of the absence of a headquarters focus, there tends to be more spotty participation and less commitment in the Army and Navy," says one manufacturer.

AFCOMS' officials say that their new stores generate 10 percent to 15 percent growth in sales just after they are opened, and see a steady increase of 5 percent or 7 percent from then on. They note that the agency's newer stores have layouts that are conducive to displays and to shopping.

TSA's Mehler says that the figures his agency receives still show that promotions cause sales to increase, although he doesn't know if the increases are in the same proportion as those of the Air Force.

"The manufacturers that come in here are pretty pleased with the type of incremental increase," Mehler notes.

Grosse says that stores which rely heavily on the frequent delivery system (FDS) may not increase their orders to gain display activity. At meetings of the American Logistics Association, manufacturers and brokers often complain that products which are on frequent delivery do not end up on displays because the stores, relying on distributors for frequent delivery of the product, don't forward buy quantities of those items. The extra quantities in the forward buys are used to build displays. FDS manufacturers and distributors have said that non-FDS companies fill store warehouses with their products, and commissary officials use these to restock displays.

AFCOMS officials tell MILITARY MARKET that it is not true that FDS products don't get on display. They say that the stores plan ahead and make sure they get a large delivery. Officials from other services have also maintained that FDS items are not shortchanged when it comes to displays.

• **Better support in the military:** The military's handling of promotions may actually mean that a military promotion is more likely to increase sales than a comparable commercial supermarket promotion.

"Generally speaking, in the military, it's been my observation that if they agree to a promotion, they perform," says Planters Lifesavers' Cattano. "They will give you an endcap if they say they will." He compares the situation to the commercial sector, where stores may promise display space and then not deliver.

Quaker's Graef notes that on the civilian side, a promotion is not as effective because all of the discount is not passed on to the customer, as it is in the military. "Promotional dollars are more effective in the military. There is a lot of waste on the civilian side."

Graef says that Quaker runs more promotions per year in the commissaries than in commercial stores.

He and Cattano agree that the military market is different in that promotions by the No. 1 or No. 2 brand in some categories can increase growth for the entire category.

"The major marketing schools would say that promotion can't influence the category — the primary consumer demand," Cattano says. "But in the military, you can."

This is shown by the graph on below, where a promotion by the No. 1 brand caused incremental increases in sales for everyone in the category. The reason could have something to do with the lack of house brands in the military market.

Stock Fund Allocation and Budget Constraints

Each of the commissary services has a tough time operating within its overall budget constraints.

The Troop Support Agency, in particular, was plagued for years by budget problems which limited the dollars available for the stock fund and for construction. This problem was recently relieved when TSA got away from its quarterly stock fund allocation and also began using contract authority for store construction.

TSA used to receive its stock fund monies on a quarterly allocation, which meant the agency had to work three months at a time and could not shift money as needed from one period to another.

Buettner says that in her years at TSA, the agency "frequently" would be low in stock fund money at the end of a quarter, although it never actually ran out. In the third

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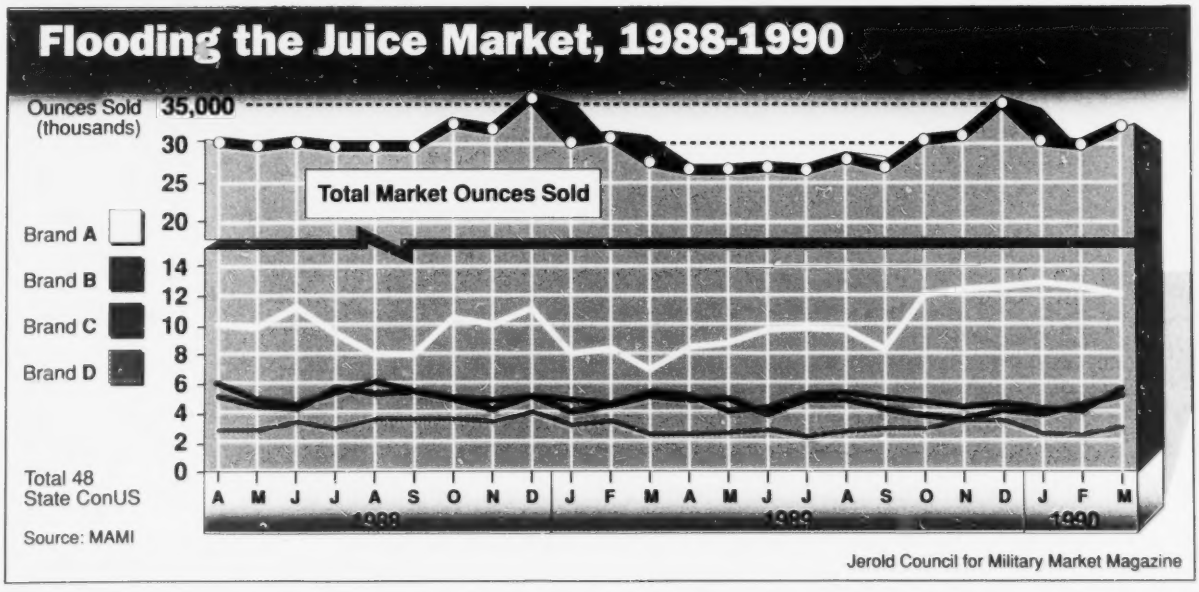

The graph above shows how promotions run in June and October, 1988, and October 1989 by the No. 1 brand increased total category volume for those months.

How Suppliers Use the Graphs

How do suppliers use graphic presentations of sales data? Here's how four firms do it.

• **Quaker Oats:** Maybe the strongest testimonial for graphic analysis comes from Jim Graef, manager of the military sales department at Quaker Oats Co. Graef says his department recently found great success by using graphs that combined share trend information and store trend information.

"We've gained both distribution and mandatories," he says. "But our biggest sale was within the Quaker Company — we sold our own management team."

Graef and his military sales department co-workers convinced Quaker executives to let the military department set its own programs and promotions, instead of duplicating what the civilian side was doing. This has resulted in what they now call the "Quaker Advantage" — the company's slogan for the personalized attention the company can give the military.

• **Planters Lifesavers:** Joe Cattano, product manager/military for Planters Lifesavers, says that "you don't have to be a rocket scientist" to use and understand graphs. He used some graphic information from MAMI in a presentation to his salesforce. "You could spend a lot of time preparing information with numbers and words, but when you throw up a graph and point to some peaks and valleys, everybody understands it."

Cattano says he looks at overall commissary sales trends and category trends and compares Planters Lifesavers' performance with those figures. "If I saw the whole commissary business growing at 2 percent a year and I wasn't keeping pace, I would be concerned." He says he would also be concerned if the category was growing and his company was not.

Cattano says he can use data and graphs to compare the effectiveness of different promotions for the same brand — promotions that may have used different VPR levels or different marketing concepts.

General Foods: John Sarver, military sales planning manager for General Foods, says that there is a "constant need for maintaining awareness" of the military market in a company where the military sales department is reliant on the division of funding within the company.

Sarver says that civilian divisions of big manufacturers have a greater advantage in that they are able to get into analyzing sales and seasonality in greater depth. "You don't find time in the military because you are dealing with so many divisions," unlike the brand people, who can specialize, he says. "We probably won't ever be able to get to where the civilian side is, but we need to get somewhere closer to what they're doing."

• **L.J. Elkin:** Lauren Elkin III, president of the L.J. Elkin, Inc., brokerage company, says his company relies most heavily on regional sales data, using it in conjunction with demographics. The information helps to develop marketing strategies that are tailored to the military market.

With graphs that only show a snapshot in time, it is important to know the underlying factors that led to the snapshot situation.

One broker, who asked not to be identified, claims that most manufacturers still do not look at data in a sophisticated way. "There's no real clearinghouse for the data," he says, noting that it takes the services months to put out their end-of-year sales figures. **KMcB**

month of a quarter, it would be difficult for the stores to have everything on the shelf that they wanted.

"We'd have to be very careful to manage," she says. "Stores might not be able to take advantage of the big sales or buying ahead at the end of the quarter."

Bill Mehler says that he's not sure whether the quarterly limitations affected sales. He says that in his experience Army commissaries were not prevented from buying by a lack of funds. At any rate, with the recent change, "we think we have overcome that obstacle."

"Philosophically, if the manager is effective in running the operation, then the dollars that he needs to run it will be available," Mehler says. "I was running a commissary for five years, and when I needed dollars to requisition product, I got the dollars to requisition product."

He admits that stores with a high inventory-to-sales ratio may not have that luxury, since the excess product ties up funds. "Any time you're trying to control your assets and work within a budget, you have to control your inventory." He says no one in TSA has attempted to determine the impact of these problems on sales. He thinks that if product choices in a category are limited, then not being able to order an item could affect sales; if options are available, shoppers can buy other brands.

"It would depend on the extent of the product availability and the perceived substitutability on the part of the consumer," he says.

Buettner cites the European market, where a captive audience is forced to buy what is available. "You don't have the sales fluctuations you may have in the States," she says.

It is generally perceived that Army commissaries have a higher inventory-to-sales ratio than do Air Force, Navy or Marine stores; stores in the other services are not as affected by inventory constraints.

General Foods' John Sarver points out that commercial industry is "just as inventory-and-cash conscious as the military." He says that, on both sides, stores run the gamut in their ability to manage inventory.

Planters Lifesavers' Cattano says that the overall commissary budget is getting more critical, and that in the past six months his company has become more aware of constraints that commissaries face. He says that an analysis of total commissary sales can be useful for monitoring these budget effects.

Space Limitations

Commissaries tend to be physically smaller than their commercial counterparts which do similar volume, but they see proportionately more traffic because they are open fewer hours.

This translates into space shortages. If a store is too small to keep proper quantities on the shelf, sales are lost when customers go somewhere else.

Mike Grosse notes that the Virginia commissary at Fort "Belvoir is the No. 1 store in the United States, and it can't even keep product on the shelf because it's too small."

Lack of space also means that the stores have less room for massive displays or for many different displays. Because shoppers buy on impulse when they see a display, commissaries could be losing these incremental sales. They also lose sales at the front end because they are required to keep the register areas clear.

However, fewer displays may also bring some sales benefits. Quaker's Graef points out that when there are too many displays in a store, a product gets lost in the shuffle. For this reason, the commissary services have to be careful not to book too many companies for their special sales events. And companies with a small market or

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dollar share need to think carefully about whether it's worthwhile to promote their product during a big category event like a frozen food festival.

Concludes Planters Lifesavers' Cattano, "I don't think it's true that promotions are hurt by space constraints in the military." He says that the superior follow-through of the military versus civilian stores makes for successful promotions despite the space constraints.

The way the services built their stores historically affected how much space they had available for displays. Since AFCOMS began using the contract authority method of construction funding, building stores based on expected revenues and not what is in the bank, the result has been bigger, newer stores with more room for displays.

The tendency for Air Force stores to be larger than those in the other services is one reason AFCOMS has the highest sales volume, despite having fewer stores than the Army.

The Army recently switched to using the contract authority method, but it will be some time before it has many large stores with more display space.

Small overseas stores are especially hurt by their inability to run big promotions. However, John Sarver of General Foods notes that just because a display is small, or has less tonnage on the floor, does not mean it will bring in fewer sales. A small display simply requires more "policing." Provided the displays are kept stocked, the amount of sales should not change.

"A small store does sometimes feel limited by what they can do, but I don't think that is an accurate concern," he says. "With an attractive display that is actively stocked, a shopper is just as drawn to it as he would be with a much larger display in a large store."

The Effects of Competition

In addition to analyzing overall commissary sales data and looking at data for their own brands, manufacturers can help themselves by charting the sales and promotional activity of their competitors.

One manufacturer who has made use of MAMI's promotional effectiveness studies explains that a revealing look at what his competitors were doing made him more conscious of his own plan. "The MAMI graphs over time can show historical promotional patterns of your competitors, how some repeat themselves with their promotional plans, running the same things in certain months."

For this manufacturer, the lesson has been to not become so predictable with his own promotions. "We're much more conscious of that now that we have seen the graphs," he says.

Knowing when the competition is promoting may also cause a manufacturer to alter his own promotion plans. The question then becomes, should I go head-to-head, or should I save the money? General Foods' Sarver says that a company must decide brand by brand whether to "go into the fray."

"If that is the prime selling season for a product, the only question is, 'Do I have the resources to go into that?' There is no hard-and-fast answer."

Mike Grosse says that manufacturers have to consider whether the takeaway will still be there, and whether there will be money for the commissaries to buy the product.

"If you're competing against the Procter & Gambles of the world, with their promotion they've got in January in which they tie up almost every end aisle display in the commissary . . . Guys sitting there looking at a marketing plan, do they really want to do anything during that time and fight against that?"

Grosse says the first look should be at overall commissary sales, "for them to be aware of the Februarys and Decembers of the world, on a real visual basis." After that, manufacturers should look at the trends for their category, and for their competitors.

Cattano notes, "It's nice if the sum total of everybody's efforts is increasing that category, regardless of the share position. If a couple of people promote, and the category is growing, you can have a very solid base to go and talk to the military" about master stock lists or promotions.

He says that when manufacturers can demonstrate that their sales are growing, and that category sales are growing, they can then ask for space to be taken from another category.

"In the next 12 months, the military is going to be taking a hard look at the items they're offering to patrons, and by taking some items out, they can manage their inventories better. It makes sense."

"But I would prefer it if I were not the one losing," Cattano adds jokingly.

Environmental Factors

There are other environmental factors that affect sales.

Inflation is one example. The sales figures shown in these graphs have not been adjusted for inflation. TSA's former resource director, Rosemary Buettner, remembers that for some months in the past few years, inflation was flat. In fact, "I remember a couple of months where we were showing negative inflation — a deflation," she says.

This could prevent dollar sales from growing at the expected rate. A sudden inflationary period would obviously cause dollar sales to rise as prices increased. At the same time, real sales of luxury items could decline as customers cut back to counter the rising prices.

In addition, product "fads" can affect sales for some categories at different times. As one item becomes popular, another item or category may lose sales as a result.

In the months to come, inflation or deflation, pressures on the Defense Department, base closings and troop withdrawals could all have an impact on sales. And as the commissary systems consolidate, their operations will be further affected.

If the new commissary system uses central distribution centers, annual accountable inventories could be handled more easily. With the reserve stock in one or several places instead of scattered throughout different store backrooms, counting will be easier. There should be no reason for stores to order down or to close when an inventory is taken. Also, an improved automation system should help with the inventory process, as perpetual inventory systems can eliminate the need for accountable inventories.

The system should be able to compensate more effectively for ordering errors. An overage could be stockpiled in the central warehouse and quickly diverted to many different stores. If the central distribution center were doing the ordering, it would be aware of the excess on hand and could account for it in future orders for the many stores it serves.

Since the new system will pull the best employees from the four commissary agencies, it may operate with even more marketing expertise. The new system will have the capability to manage data of all kinds — including demographics, planograms and customer feedback — and to work with it in new ways and with better results. And as store-level personnel gain increased access to these techniques, the benefits will be seen at all levels and in all aspects of store operations.

For resale professionals in the government and in industry, it appears to be a good time to break new ground in the use of data and graphs. MM